[Chairman: Mr. Martin] [10 a.m.]

MR. CHAIRMAN: If we can, we'll bring the meeting to order. I believe the minutes from the last meeting, April 11, have been circulated. Are there are any errors or omissions? Seeing none, all those in favour of adopting the minutes?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: Okay. Before we get into further discussion with the Auditor General, I believe you have a schedule of meetings, that was circulated, of the people who will be coming before the committee. I point out that these are the members the government members asked for. I checked with the opposition, and it was fine with them.

We've had to make a couple of shifts: May 9, the Provincial Treasurer, Mr. Hyndman; May 16, Mr. Bogle, Minister of Utilities and Telecommunications; May 23, Minister responsible for Personnel Administration, Mr. Stevens. Of course we don't know how long the House is going to go on, but saying that it's still on: May 30, Mr. Moore, Department of Transportation; and June 6, Mr. Johnston, Advanced Education. These have been confirmed with the various ministers. So that's the scheduling we'll be following.

MR. PAHL: Mr. Chairman, I guess Mr. Johnston would probably prefer to be called Dick rather than Dave. We'll pass that on to the secretary.

The other question I have is: am I to understand there were no requests from either opposition party?

MR. CHAIRMAN: I checked with the Leader of the Opposition, and he looked through the people the government members had checked and said it was favourable to him.

We will make the necessary changes and change Mr. Johnston's name back to Dick.

Last day, we started to go through the report of the Auditor General for the year ended March 31, 1983. According to my calculations, we finished on section 2.3 on page 38, and we were ready to move into section 2.4, which begins on page 39. For members' information, it goes to page 53. So we can stay in section 2.4 for this discussion.

First of all, I will see if Mr. Rogers has any initial comments he would like to make on this section.

MR. ROGERS: Thank you, Mr. Chairman. I apologize to members of the committee. I seem to be struggling a bit with the flu, but as long as you can hear me, that's fine.

This section deals with accounting situations where accounting policy changes would, in our opinion, improve the reporting of government or the management information available. It covers a number of diverse subjects. Perhaps we should leave it for any questions, Mr. Chairman.

MR. CHAIRMAN: Are there any questions dealing with section 2.4? No questions? Are we moving too fast? I know certain members weren't here last day. Let me give you just a minute to think about this section, rather than just rush through it.

MR. ROGERS: Mr. Chairman, if I may, perhaps just a few comments on each subject. As I say, they are quite diverse and unrelated topics.

MR. CHAIRMAN: That may be helpful.

MR. ROGERS: It might put things in perspective a little bit.

The Accounting for Program Costs visualize a situation where, as with some of the central services provided by the government such as computer processing — these are charged to the various programs. However, there are many expenditures involved in program delivery that are not charged. Consequently there is not the incentive for program managers to control these expenditures in the same way I believe they would if they had to, in effect, obtain the funds for those expenditures. The ones I'm thinking of are space, rental — those kinds of expenditures that are borne by central agencies. Are there any questions on that one, Mr. Chairman?

MR. PAHL: Mr. Chairman, I can't resist. The implication here is that if anyone perceives a service to be free, they tend not to be as parsimonious with it as if it were in some way charged. Perhaps we could all draw from that with respect to hospital costs in other discussions.

MR. CHAIRMAN: Is that a question?

MR. PAHL: No. I think the Auditor General nodded in the affirmative with respect to the first point. I was really trying to make a serious point in the sense that anytime a service is considered to be free, it tends be used with less care than if it's perceived to be one you're accountable for. I think there is a message, but I was trying to reinforce the point he made in the report.

MR. HARLE: Mr. Chairman, I take it the concept of program budgeting has now been pretty well established through all departments. When you have the concept of program budgeting, you're trying to allocate costs of various services to the right program. As I understand it, one of the consequences of that concept has been the initiative to establish revolving funds. Am I right in concluding that the reason we're seeing more revolving funds now is as a result of program budgeting and its implications upon the various departments of government that are not necessarily related to the concept of program budgeting?

MR. ROGERS: A revolving fund, Mr. Chairman, is one way in which the cost of assets that are used over more than one fiscal period can be charged in a meaningful way to the actual expenditures of a program on a use basis. A case in point would be in Transportation, where the heavy road equipment — graders and so on and so forth — is purchased in a revolving fund and then, over the lifetime of that asset, is charged to the various road maintenance programs. So revolving funds are one way this is achieved.

But we have other costs borne by central agencies that are more significant in many ways, space being one of the main ones. I'm not suggesting here that people have more space than they need because it's free. It's more an unawareness of exactly what costs are involved. I think that would come home much more clearly if the department had to provide the funds for the space it occupies.

Mr. Chairman, I could just add that if you look at the answer, this is not the first time this has been included in the report. On page 119 you will note that the answer by the Provincial Treasurer submitted to this committee last October was:

> A task force consisting of representatives of Executive Council, Public Works, Supply and Services and Treasury studied the issue and its recommendations are now being reviewed by Heads of the departments involved.

I am not aware of anything coming from that as yet, but presumably we will hear in due course.

MR. HARLE: Just carrying on, Mr. Chairman, on the concept of program budgeting and the fact that you set up revolving funds. As I take it, you are indicating that there is some discipline, as far as program managers are concerned, in being able to know the various cost components of a particular program. The difficulty that could arise is that it may well be that a central purchasing group or a central type of operation that is the body that has the obligation of providing the service to other programs is, in effect, overcharging for those programs in order to produce a better looking budget from a revenue and expense point of view. The program managers see that. What can they do about it?

For example, if the service is being provided on a pure cost basis, then presumably the savings that occur by volume buying or whatever can be passed on to the user department or the user program. But if the ability is to make a profit on the deal, then the program manager says to himself: well, why should I be prevented from going elsewhere and ignoring central purchasing or whatever? What is the mechanism that a program manager has to be able to do the best for his or her program, as opposed to having to accept what comes out of the central purchasing or central service area?

MR. ROGERS: Mr. Chairman, if you had a situation where the central agency simply passed its costs, whatever they might be, over to the users of the service, I think you could get a situation where, as you say, the program manager is paying above market, if you will, for services that he could obtain more cheaply elsewhere. The fault is the way in which the system is set up. That should be looked at very carefully — that the services provided by a government agency reflected the economies of scale that were possible. I don't care whether you have a large computer system or whatever, you should be able to provide services at equal to or less than those services could be provided by the program itself, by the department itself. This is a problem.

Furthermore, I think the services provided by a government's central agency or by revolving funds should be able to stand competition from the private sector. Their costs should not be different from the costs of obtaining the same service from the private sector.

MR. HARLE: But that's the very point. How does the program manager achieve that review of competition when, for example, there may be legislation — as there is — that says purchasing or that service should be provided through a central agency? What does he look at? How does he bring this problem to light?

MR. ROGERS: Control must be exercised on the providing agency by government, through Treasury, Executive Council, whatever. There must be a mechanism that ensures that the providers of the service are themselves properly controlled from a budgetary point of view, and I believe that is a concern of Treasury.

MR. NELSON: Mr. Rogers, following up on a similar point the Member for Stettler was dealing with, it seems to me that in your report a considerable amount of money has been discussed as being expended by various programs but not charged to the program. Very simply put, I guess that's the bottom line. Would it not be prudent to suggest in a recommendation that each program has its own budget as to the expenditures required in, for example, space or at least accommodation, and it would be charged back to a particular department — for example, Mr. Chamber's department — and that each department would have its separate budget? Why would you not specify a recommendation of that nature, so there is a responsibility on the particular ministries involved?

MR. ROGERS: The recommendation is that ...

MR. NELSON: You used the term "revolving funds". I am just wondering if that would be a reasonable term to use under the circumstance, even though it is a revolving fund when you're dealing with interdepartmental transfers as such. Using another term, it might be better understood and maybe put it into terms that might be more aggressive than what you have placed here.

MR. PAHL: Mr. Chairman, if I may just interject for a moment. Part of the reason for asking for Mr. Hyndman was to get an overview on revolving funds. I certainly don't want to inhibit members, but there is some time targeted for revolving funds, as I mentioned when I provided our list.

MR. NELSON: Mr. Chairman, I think that the purpose of having the Auditor General here — he's the man who's looking after the public's interest, which we're also to do. I think he could help us here, and then maybe the Treasury could also give us an overview of what he perceives it to be.

MR. CHAIRMAN: I don't see anything wrong checking with both people.

MR. PAHL: That was just a point of information.

MR. ROGERS: The revolving fund is the device that has been used by the government to achieve this passing of costs to the programs. This is being done already in one or two significant areas. The prime one of course is the use of computer services. When a department has or uses an EDP system, all costs are passed on to that department. They have to budget for the costs; in other words, they have to justify to the government at the time of budget preparation that the system will be cost-effective. This includes all costs they will pay to the central agency which is, as you say, Public Works, Supply and Services.

The device that has been used is the revolving fund, and that's why that is used in the recommendation. It is a device whereby the government in effect invests in equipment — in the case of computer equipment, they have many millions of dollars worth of equipment — and staff, and then those costs appear as actual expenditures as the services are used.

MR. NELSON: Mr. Chairman, I have no difficulty in purchasing services through one central agency. I think it can be, or should be, cost-effective. What I'm being led to believe through the recommendation in the material supplied is that that may be being done, but not all departments are being held accountable for the expenditure of all those funds that are being used for those various departments. If I am incorrect in assuming that's what you're saying, please tell me. If not, I'm just wondering if we should be more aggressive in our direction to the various departments to ensure that those moneys are in fact budgeted and that they are held accountable for the expenditure of those funds in that revolving fund.

MR. ROGERS: No. The revolving fund is not the problem. In fact, properly handled, that can be the solution to the problem. The problem is where in effect Public Works, Supply and Services, not through a revolving fund but as a part of departmental expenditure, builds a building, and then it's occupied by various departments. Those departments have no knowledge of the square-foot cost of the space they're occupying. That does not differ whether it is a government-purchased or a government-rented building.

I occupy a rented building. Public Works deals with the owner of the building. It wasn't until the question of renewal of lease came up that I was even aware how much a square foot the space we were occupying was. As a program manager — and I am as far as the Audit office is concerned — I would perhaps have been more concerned with the space if I'd known the exact dollar cost of it. But ingrained in the operation of government is the fact that you aren't involved in paying those costs; they are paid by another department. You're unaware. You need extra space. You put in a request for additional space, for partitions, the run-of-the-mill maintenance type things, and things like that. And you don't think of it in dollar terms, because Public Works comes in and does it. That is really what we're talking about. If those costs were passed on to the department manager, I would have a budget and I think there would be a tendency to be far more aware and perhaps more careful of meeting that budget.

MR. NELSON: If I might, just the final supplementary on this go-round. In other words, the program manager should have a budget that reflects the complete costs of his operation, and those costs should probably reflect the market cost rather than an inflated or deflated cost through the central purchasing agent, thereby giving a truer picture of that department's actual operation for that budget year.

MR. ROGER: That sums it up, Mr. Chairman.

MR. CHAIRMAN: Mr. Pahl.

MR. PAHL: My question was answered in Mr. Harle's point.

MR. HARLE: Mr. Chairman, to Mr. Rogers. When you said just a moment ago that it should be the market cost that should be borne by the program and not the actual cost, I have some problem with that. In other words, if central purchasing should be able to lower what I would call market cost by virtue of the fact that it does it on a bulk basis, then surely that advantage should be passed on to the program. What causes me concern is if through the revolving fund, the central agency program should be able to make a profit on it to pass it on and then say, that's the market cost. What I'm trying to find out is, what can that program manager do? He's stuck with whatever buildings come out of the central agency. What I would like to know is, what is the mechanism that provides for that discipline?

MR. ROGER: I would like to add to what I said earlier when I talked about market costs. I think market costs should be the control. If the actual costs can be less than market, so much the better. None of the revolving funds is established to make a profit. They are all supposed to operate more or less on a break-even basis. In the case of the computer services provided by Public Works, Supply and Services, they recently cut their rate considerably, because they had built up a surplus in the previous year. By cutting their rate, they should bring it back to break-even position over a period of time.

When I was talking about market costs, I was thinking in terms of space. It seems that we have the control. For instance, as I say, our building is a rental that is negotiated between the government and the owner of the building. It seems that could set a sort of standard that would not be exceeded. Suppose our office moved into a government-owned building. I wouldn't expect that the rate per square foot would be higher. So you see what I mean? All other things being equal of course. It seems to me that the private sector can be used more or less as a control, because the efficiency of the people supplying central services has to be a matter of concern, that the costs or the charges to the departments receiving the services are not out of control.

MR. HARLE: Mr. Chairman, to continue the principle that actual costs should be allocated to a program, would that also be true of the Auditor General's costs?

MR. ROGERS: I would like to see the office established as a revolving fund, Mr. Chairman. We have to do our job as efficiently as possible, and I've already spoken to Treasury about this possibility. I think that would be a good discipline for ourselves, the same as anyone else.

MR. NELSON: I guess I'll get a little scenario, and then a question very quickly. When we're talking about actual costs to the particular program, and if for example we're talking about leasing space or leasing a computer service or whatever, is it your suggestion that the total cost not only of the space but the administration of that space be included in the program that is to be budgeted by a particular manager?

MR. ROGERS: I have no problem with the actual cost of rental of space, for instance. I think I would feel a little differently about so-called administration costs added by the department that negotiated the contract or the lease. I suppose a case could be made that they would get a better deal as a result of the negotiation because of the buying power, if you will, of a government. But I would hate to see unrestricted administration costs added, because I feel those may result in an end cost to the program that would at least appear to be unreasonable.

MR. NELSON: Would you not foresee, for example — and I'm going to use the scenario of accommodation. Obviously there's an administrative cost to leasing, managing, and what have you, the accommodation, be it a government building or a private sector building. If we took that as a separate entity in total, should not the end users be liable for the total cost of that program, wherein the department of supply of that particular entity would have a balanced budget? In other words, there would be no end cost to that program or that service, but it would be effectively charged to the various users.

MR. ROGERS: My only point was that as long as the administration charge was equitable. This has been done in the days of the Queen's Printer, way back. They would add 5 percent, I think, as an administration charge — that kind of thing. I think it would in effect be negotiated internally to some extent.

MR. NELSON: I await the appearance of the Provincial Treasurer.

MR. CHAIRMAN: Okay. Any other questions?

MR. GOGO: Mr. Chairman, I wonder if I could put a question to the Auditor General, really for information. We have government aircraft, bought and paid for, sitting out there in a hangar. That equipment is paid for. We have pilots who fly those aircraft who are paid salaries. Yet it seems to me that when departments of government want to utilize the aircraft, the amounts charged to those departments are extremely high. They may be competitive with the private sector; I don't argue. But almost by implication departmental managers, indeed maybe ministers, are discouraged from using that equipment because of the apparent — I say apparent; not actual, in my view — charge.

In other words, you could fly commercially from Edmonton to Lethbridge return on Time Air for $200. Yet to do the same thing with a government aircraft is $600 to $1,000. It's really a paper shuffle, because it's paid for and the wages are already paid. Yet the system we seem to use would actively discourage use of those aircraft because of the apparent cost. Would you comment on that, Mr. Rogers?

MR. ROGERS: You're getting into the policy area, of course; that's understood.

I'll go back to the computer area, if you don't mind, because that's one area I spent a number of years of my life in. In that situation, the whole benefit accrues to the government if the asset, being a computer, is used intensively. That computer is shut down about two or three days a year at the most. At other times it's operating 24 hours a day, seven days a week.

The more intensive use you can get out of an asset, then what you charge out in unit costs drops. If the aircraft are sitting in a hangar a lot of the time, then obviously the costs are going to be high because the usage is not as intensive. If those aircraft were flying all the time — I'm not saying that's a good thing, but if they were — then obviously the costs per trip would be way down.

That's one of the problems management has to wrestle with, of course, because there's no ready answer for that. The point is that those assets were purchased to be paid for on a use basis. If they're not getting the use, then the cost per time of use tends to be abnormally high, or appear to be abnormally high.

MR. GOGO: It's interesting that the aircraft were purchased initially to put out forest fires in Alberta. There seem to be many other types of fires going on, I guess. That's why they're travelling.

MR. CHAIRMAN: Anything further?

MR. McPHERSON: Mr. Chairman, my comments are with respect to pension funds and the unfunded liability, but that's a little ways down. I can come back.

MR. CHAIRMAN: Okay. Any other in this area? Seeing none, Mr. Rogers, would you like to highlight some of the other areas? If we happened to skip over ones, please bring us back in this section.

MR. ROGERS: The Alberta Heritage Savings Trust Fund item has been cleared.

The next one, 2.4.3, the Alberta Housing Corporation: I think that matter has now been cleared by actions taken by the government in the last little while. I think it is self-explanatory. It is really a situation that results from the downturn in land values.

MR. CHAIRMAN: We'll just stop there. There seem to be some questions.

MR. R. MOORE: Mr. Rogers, I agree there is no point in us continuing capitalizing interest when the price of land was higher than market value, and of course your recommendation was to take that write-off.

The second recommendation you make, "establish procedures to prevent the recorded cost of land inventory exceeding the market value" — basically, I think the only way is to take a write-off and adjust back to market price. Is there any other? Why didn't you just recommend it? You say "procedures", as if there were other procedures to follow. Could you comment on that?

MR. ROGERS: One of the approaches that was taken by the government was to make an interest-free advance from the General Revenue Fund so that the Housing Corporation does not, in effect, have to bear that interest. The debenture was — this has happened very recently, and I'm afraid I haven't got it right at my fingertips. I believe action was taken to eliminate the situation where the GRF would have to advance moneys to the Housing Corporation so that it could pay the interest on the debenture from the Heritage Savings Trust Fund. I believe that situation has been cleared, but I would have to come back next week or some other time with a more detailed answer, because these are events that took place right around the time the report was released or since.

MR. R. MOORE: A supplementary if I might, Mr. Chairman. You say here:

> review regularly the status of its development projects to ensure that the projects' capitalized costs do not exceed the anticipated sale value.

That's very easy to say, but it's very difficult to achieve when costs are increasing around you, and the market value is not going up. Is there any method? We can recommend this, but could you comment on how we would go about accomplishing such a thing? Is there a method you would recommend?

MR. ROGERS: The procedure was that where there were a number of lots involved in a project, as those lots were sold — because the concept was that they would sell for the actual price, which consisted of the original cost plus development costs, there would really be no loss involved. But because of what has happened to the market, there has tended to be a loss involved. They would not reflect that loss in their financial statements until the very last lot had been sold on the project, and the result was you would have a lot sitting on the books at a value many times any possible market value.

This suggestion is that they take that loss and reflect it before they get to that position. In that $15 million, quite a number of those lots had to be written down. It wasn't just the cost of the lot; it really was also the losses on other lots that had been sold for less than development cost.

So that is why we say that they should recognize this loss, even although there are other lots in the project to be sold. It's just a matter of timing, as to when you take the loss.

MR. NELSON: I'm really not in opposition; don't get me wrong. Mr. Rogers, through the budget speech it was determined that the government was going to buy land and at the same time assume mortgages on land. From the practice of the Auditor General and of course considering the taxpayer and the public at large, I'm wondering what your thoughts are as far as the possible long-term debt the government may carry by assuming mortgages.

If I can use a scenario: if we were to purchase, say, $100 million of land, and we have a budget of $20 million to purchase this year — if we were to pay the $20 million and assume $80 million in mortgages, how would that effectively impact our long-term debt, if that is called a debt? Maybe you might even assume it is an asset.

MR. ROGERS: There are several things there, Mr. Chairman. One is that it gets into the area of policy, and I really think the Provincial Treasurer should answer that question. Certainly the purchase of land has to take into account your long-term projection of what is going to happen to the price of land, and of course there are other policy considerations that can enter into that decision.

Here we are really only talking about the way in which the Housing Corporation was treating these assets and the losses incurred on their books. It was not meant to be a comment as to whether they should have invested in land or not, or anything like that. It's simply a matter of how it's reflected on the books of the corporation.

MR. CHAIRMAN: I think what Mr. Rogers is saying is that he can't make a comment on whether they should be, in terms of personal, because that's not his role.

MR. NELSON: I appreciate that. I'm trying to determine, I guess, and get some edification. Supposedly we're here to protect the interests of the public, which I'm sure we're all trying to do the best way we can.

I guess the same scenario could be used for Alberta Housing Corporation and the purchase of land. If they were to use mortgages as a manner in which to assume land, by giving a down payment and assuming a mortgage . . . I guess what I would like to determine, and maybe you can't answer it; I don't know. Maybe it is a policy decision of the government. At the same time, that type of decision could mean a long-term debt to the people of the province. I just thought you might be able to offer some relevant considerations.

MR. ROGERS: No, Mr. Chairman, I don't think I can make a comment on that, other than that land is an investment and presumably will increase in value down the road some place, which was the case for a number of years. In the activities of the Housing Corporation, they were adding the capitalized interest, but they could always sell that land at more than or equal to the original cost plus all subsequent capitalized costs.

MR. NELSON: Times have changed, though.

MR. ROGERS: The change took place a couple of years ago, of course.

MR. CHAIRMAN: You might want to bring that to the Treasurer, Mr. Nelson.

MRS. KOPER: Mr. Chairman, just very briefly to Mr. Rogers, regarding the last recommendation. Would all provincial land purchases by the government for acquiring and holding long-term development land be amalgamated under this one provincial land purchase fund?

MR. ROGERS: Mr. Chairman, I've not had any word from the Provincial Treasurer on this subject. But the fact that they have loaned money from the General Revenue Fund to the Housing Corporation, the land will stay with — in other words, this has been rejected and an alternative which achieves the same result has been adopted, which is fine. That is, by providing funds to the Housing Corporation the same effect is achieved that was intended by this recommendation.

What it does mean is that the GRF forgoes the interest, if you will, because that money is out there when it could be earning interest for the General Revenue Fund. So there is still a cost. It's simply where that cost is borne.

MRS. KOPER: I see. If I may have a supplementary. If this recommendation were followed, would it result in deregulation or further regulations?

MR. ROGERS: No, there is a Land Purchase Fund that does hold a considerable quantity of land that has been purchased by the government. I was simply suggesting that maybe they should consider transferring this land which is held for long-term investment from the Housing Corporation, to free up funds of the Housing Corporation, because that land was financed in the Housing Corporation by debentures to the Heritage Savings Trust Fund. We had this rather strange situation where funds were flying around. To get rid of that problem, I suggested that the land itself be transferred to the Land Purchase Fund. But instead of that, they did something quite a bit a different. They said: we'll leave the land in the Housing Corporation, but we'll provide them with funds from the General Revenue Fund. It achieves the same end result. But it wouldn't affect deregulation or anything like that.

MR. MUSGROVE: Would this have the same effect on land that was held in land banks on behalf of municipalities?

MR. ROGERS: No, this only applies to land held by the Housing Corporation, although I believe some of this land was subject to agreements with municipalities. I believe those agreements in effect provide an out to the municipalities, and this was part of the problem. In many cases, the municipalities no longer required the land as they did when the land was originally purchased by the Housing Corporation. That was part of the problem.

MR. CHAIRMAN: I don't see any other hands up in this section, do I? Yes, I do.

MR. HARLE: When you said section, if I turn to pages 48 and 49 . . .

MR. CHAIRMAN: We'll be coming to that.

MR. HARLE: Okay.

MR. CHAIRMAN: I'll have Mr. Rogers draw our attention to some of the more important things. If we skip over something, please come back to it. Mr. Rogers, do we want to go on from there?

MR. ROGERS: Yes, Mr. Chairman, 2.4.4 is another subject that has been discussed in past years, and it has to do with the control over capital projects. The only purpose of this is to suggest that there could be an improvement in the reporting on capital projects, for control by both the Legislative Assembly and by the executive. This stems from several situations we have seen. There are a number of levels of this. Of course one is that very often a project is commenced without a good estimate of what the eventual costs are going to be. Figures are not available as to how these costs increase when the estimates are refined, and this refining of estimates is a continuous process. Furthermore, the effects of inflation, which of course were very significant several years ago when the construction industry was running at about 15 percent per year — it's less of a problem now. But the other thing that tends to get into the picture are changes to the original contract as the owner-to-be or user-to-be of the building makes suggestions for all sorts of improvements, all of which add to the original budgeted cost. What happens, as we all know of course, is that it reaches the point when it becomes all too obvious what has occurred.

My suggestion is that if the various factors were reported as they came about — and there have been instances where the people actually managing the project were not aware of all the costs that were accruing, because the changes and additions to contracts were not really reflected in the monthly reports to management. I also believe that in the provision of the annual funds in the budget, it would be better if more up-to-date and more detailed information were available than at present.

I really feel that's all I have to say on that subject. I think it would be better to get a better handle on some of the large construction projects.

MR. CHAIRMAN: Are there any questions about that section? Seeing none, we'll move to the next section. Do you have any comments on Pension Liability, Mr. Rogers?

MR. ROGERS: Yes. Pension liability is a difficult one because even in the private sector, accounting societies and people involved in making rules for accounting for the private sector, themselves have not fully agreed with the treatment of pension liabilities. There are several schools of thought, especially when applied to government.

There is no doubt from the calculations that the unrecorded liability for pensions is increasing at a very rapid rate. According to our computations, the increase in two years is in the order of $1.2 billion. There's no doubt about it that there seems to be a bit of anomaly if, on the one hand, savings are being made for future generations in the form of the Heritage Savings Trust Fund, and on the other hand, there are increasing liabilities for pensions that are not recorded and shown in the computation of the surplus, because we have an overall accumulated surplus or net assets. It is to bring that to the attention of the government through this recommendation. It's been here now for several years, and I believe it's being seriously considered by Treasury.

MR. HARLE: Mr. Chairman, I guess this is a major area of concern not only in Alberta but in many jurisdictions. I suppose it is particularly true of government-funded pensions. I notice your recommendations on page 49, which is the area I want to get into, particularly the last one, which says:

> consideration be given to all available
> ways and means of restricting the growth
> in the net pension liability.

It seems to me that one of the ways available would be to increase the amount of contributions made by individuals to their pensions. I think the contribution level in the past has been of a considerable advantage to people in the service of the government, and perhaps with good reason for that state of affairs. Nevertheless, with the growth you're indicating here in pension liability, it seems to me that the time has in fact come when contributions made by individuals to their pension should in fact be increased. I assume that is one of the suggestions you are in effect making.

What other ways and means might be available that you had in mind?

MR. ROGERS: There are three alternatives altogether, and you have named one of them. Another alternative of course is to transfer further funds from the General Revenue Fund; that is a possibility. The other thing is to, in effect, establish the liability offset by an amount that is amortized over a period of years, which is what the standard-setting board in the United States, which is FASB — that is mentioned in the second item in the recommendation — has made. It's a contentious one; not everyone agrees with it. The other one of course is to cut benefits. Obviously if you cut benefits, if you cut the pension prospects of people, that's another way of doing it.

It's a matter of policy and judgment on the part of the government as to which course they take. I think they're examining the options.

MR. HARLE: Mr. Chairman, the way in which you have responded indicates to me that in priorizing what might be done, the first priority would be the one I suggested; that is, increasing contributions. As a second one, I'm interested in — and I'm not familiar with how the FASB suggestions affect the overall liability, I'd be interested in perhaps a little more elaboration on that.

MR. ROGERS: Basically the unrecorded liability is because for a number of years the organization, whether it be government or a corporation, has not set aside sufficient moneys to meet future pension costs. The idea here that has to be taken into account is that these pension costs are in effect a promise to pay made to employees, and therefore are a real liability to the employer.

When you're in the situation where you have a very large unrecorded pension liability, the idea is that it would not be feasible to withdraw those funds or establish that liability overnight. FASB's recommendation was to establish the liability on the balance sheet, offset by an asset which was no more than an offset to the liability, but to decrease that asset by charges to operations in each of a number of succeeding years, which could be 30 or 40 years. At the end of that time, the failure of the organization to set funds aside in the past was rectified. That approach is being taken in several other jurisdictions in the public sector.

MR. HARLE: Is that, in effect, an amortization?

MR. ROGERS: That's right. The reason for the amortization is simply that you don't distort the situation in one given year to an unbearable extent. This would be over and above increased contributions. As you rightfully said, that's a first step, because that would tend to slow this annual increase.

MR. HARLE: One more question.

MR. CHAIRMAN: Okay, we'll give you one more. Go ahead.

MR. HARLE: I think that was my point. It seems to me that the priority, as you see it, would be in the area of an increase in contributions and, secondly, to take some amortization approach to trying to solve this growing liability.

MR. ROGERS: Not necessarily. I'm not necessarily saying it's necessary to fund the whole liability, because you tie up an enormous amount of assets that way. What I'm saying is that instead of saying we have net assets of — what is it? — $11.3 billion, we have something less than that because we take into account and recognize that we have a pension liability.

MR. CHAIRMAN: I don't see any further questions on that. We'll move ... Do I see your hand, Mr. McPherson?

MR. McPHERSON: I'm at considerable hazard here, Mr. Chairman. I'm sorry; I had to leave the room and didn't get the drift of the questions and answers on pension liabilities.

MR. CHAIRMAN: We're on pension liabilities and looking at putting it in the funding, but they're in a discussion of how to handle the problem of a growing problem. Using your insurance experience, do you want to get into this?

MR. McPHERSON: I want to get on the subject, Mr. Chairman, and I feel I'm on a slippery slope because I may be asking some questions that have already been answered. Of course if I do, please advise me.

In this whole area of unfunded liability with the public service pension plan, Mr. Rogers, I note you have recommended a couple of things that are certainly of interest to me. One, that the government should consider — just a moment, I'm trying to find it.

> Consideration be given to all available
> ways and means of restricting the growth
> in the net pension liability.

It strikes me, Mr. Rogers, that we have a significant unfunded liability in our public service pension plan, and there are probably a couple of ways of correcting that. One would be to inject a massive amount of funds into that plan, which would simply be an exchange of debt. Under the unfunded liability, we as a government do not pay interest on that unfunded liability, but we surely would pay interest on money borrowed from capital markets to inject those funds into the actuarial reserve. So that would be an exchange of debt, and I'm not sure that would be the right way to go.

My other comment would be that it wouldn't strike me to be fair to ask current employees to pick up the costs of past employees, nor would it be fair in my view to ask current employees to fund the costs of future employees, but clearly it strikes me to be eminently reasonable to expect current employees to pay current costs. That in fact would accomplish an acceptable result and, I suppose, your recommendation that we take steps to reduce the growth in the unfunded liability.

My questions, sir, would be these. After making my representation, I would appreciate your comments as to whether or not you would suggest that the government fully fund the pension plan. How strongly do you suggest . . .

MR. CHAIRMAN: Can we just do them one at a time.

AN HON. MEMBER: I've got four. Are you going to give me a chance to get to my four?

MR. CHAIRMAN: Nobody else is up; you could probably put your hand up again.

MR. ROGERS: The recommendation is not really to fully fund but rather to recognize the liability. I was describing my interpretation of the recommendation from FASB, which is the standard-setting board in the U.S. They've only brought it forward as a discussion paper, and this process will go on for another year perhaps. If eventually it is embodied in the recommendations of FASB in the U.S., it is something along the lines of what I've been suggesting for a while; that is that the liability be recognized, but there'd be an offset — a soft asset, intangible asset — which is an amount that is then amortized over a good number of years. What has happened for many years — and I think you know the history — is that the government took employees' deductions, contributions, into revenue and then paid the pensioners directly as expenditures from the General Revenue Fund. Over all that time, by not recognizing the interest building up on the contributions and not making government employer-matching contributions, we've got ourselves in this position.

It means that some action has to be taken in order to make that up. But as you point out, to take it in one year would create an enormous distortion in our finances. So the suggestion is that in effect this be amortized over a good period of time. In some jurisdictions 40 or 50 years are being considered. I think Quebec is working on something like a 50-year basis. But that's all right because in the fullness of time, realizing a lot of this liability won't really become tangible until a good time in the future, that seems to be a reasonable way to approach it.

The other thing is — there are two factors. That is to pick up the unfunded liability as it exists; the other thing is to stop the annual increase in that liability. That's another matter, which could be tackled through increasing contributions and that sort of thing.

MR. McPHERSON: A comment before I ask another question. I hear what you're saying, and I applaud your recommendation. It strikes me that you're saying we've got to start to take measures to protect future taxpayers. That has always been a concern of mine.

Do you have any handle on the current service shortfall vis-a-vis the employee and his participation towards the plan and the government's participation towards the plan, as a percentage of payroll?

MR. ROGERS: No, I don't really. This is probably one of the areas we'll be looking at in discussions with the actuary. As you know, there's an actuarial evaluation coming up, and I think we know a little more than we did three years ago, when the last one took place. I think we'll be looking at that.

MR. McPHERSON: Of course we're dealing with a shortfall of $770 million for the period ended March 31, 1983. So we know that figure, or at least . . .

MR. ROGERS: That's a computation.

MR. McPHERSON: Yes, that's my point. That's a computation, a calculation, a best guess.

MR. ROGERS: A best guess based on the actuary's 1981 figures.

MR. McPHERSON: Have you or your office given any consideration to the new Saskatchewan plan — i.e., a money purchase plan — and the advisability of the operation of a money purchase plan being folded into the public service? I think you may recognize some of the difficulties involved with that. It's complex. Without going into the details, have you given any thought to recommending that government consider at least a money purchase plan that could be established, probably for new employees?

MR. ROGERS: Apart from observing what has happened in Saskatchewan, we don't have anything additional to add to that, except it is one way to go as far as future public servants are concerned. But even with it, one has to take into account what the end result of that will be down the road. In other words, will the pensions it will provide be adequate, or will the government of the day come under increasing pressure when you get one set of pensioners paid one pension and another set paid on quite a different basis? People may not recognize that when they are still employed but would become very much aware of it after they retire.

I think we're getting into an area that is a matter of government policy, and it really is for the government to weigh all the pros and cons in making a decision. But it is one option.

MR. McPHERSON: One final comment.

MR. CHAIRMAN: [Inaudible] second set, right?

MR. McPHERSON: No. I'll just make one final comment, and perhaps question.

You're right, Mr. Rogers. It is a policy area, and I'm sure that would be debated time and again. Is it fair for me to ask you specifically that you are expressing a genuine concern for the integrity and protection of future taxpayers in the province of Alberta, in relation to the unfunded liability?

MR. ROGERS: Yes, sir.

MR. ZIP: Mr. Chairman, would the Auditor General consider future pension liabilities one of the greatest threats to the financial integrity of future governments?

MR. ROGERS: I don't think I would go that far, because there are many other threats one can visualize that would be as significant. But with the unrecorded liability escalating at an estimated $1.2 billion in two years, I think that is worthy of considerable concern.

MR. ZIP: I have a further question, Mr. Chairman. Have you given consideration to what impact the slow easing back of pension benefits would have on reducing future pension liabilities?

MR. ROGERS: I haven't quantified it, except of course that it is one of the options the government could look at.

MR. ZIP: Thank you.

MR. CHAIRMAN: I don't see any more questions on Pension Liability, so maybe we could go into Program Expenditures Offset Against Revenue. Mr. Rogers, are there any general comments on this?

MR. ROGERS: No. Again, I think this has been around for several years. There are exploratory drilling incentive credits and geophysical incentive credits that reduce the revenue, mainly royalty revenue, but some of them are paid by cheque. Those that are paid by cheque are subject to budgetary control at the time the budget is brought in and subsequently, whereas of course the reductions of revenue do not have the same control over them. I think that is one of my concerns, that this really is an expenditure program. Yet because it is delivered by reduction in revenue, it does not have the same legislative control as do expenditure programs. But there is an increasing anomaly, as you can see on page 50. In 1980-81, $3 million was paid by cheque, in 1981-82, $12 million; in 1982-83, $40 million. These are actual payments out.

Of course firms and corporations are now allowed to choose whether they wish to have their liabilities for royalties and other payments to the government reduced or whether they receive the money in the form of cheques. This results in a rather strange anomaly, in that these decisions by individual corporations actually affect the amount of money flowing into the Heritage Savings Trust Fund. If a corporation makes the decision to be paid by cheque, then to that extent it increases the amount of money going into the Heritage Savings Trust Fund. It is an anomaly that is a by-product of this choice given to corporations as to the way in which they would receive their incentive credit for the purposes described.

MR. CHAIRMAN: Are there any questions dealing with section 2.4.6, Program Expenditures Offset Against Revenue? Seeing none, we move on to the next section, 2.4.7, Timeliness of Financial Reporting.

MR. ROGERS: I think this is a matter for this committee to make a recommendation on, if ever there was an item. It is really a perception on my part, which may not be correct, that the public accounts and the Auditor General's report would certainly be of greater interest if we were holding this discussion a matter of several months after the year-end rather than approximately one year after the year-end. It is done in the private sector and in some areas of the government sector. I don't think they would mind my saying so, but the annual reports and the financial statements of AGT, for instance, are released within two months of the end of the fiscal year. It can be done, but there needs to be the will to do it — almost the demand that it be done. I really feel that as the main users of the public accounts and the Auditor General's report, this committee could perhaps sort of express its opinion as to the desirability of being able to deal with the events of a year in the fall session as opposed to the spring session. I think that's putting it as bluntly and in a nutshell as possible.

Realizing that these things don't happen overnight and that they don't happen easily, when the new year comes around a lot of attention is given by departments and agencies to the work of the new fiscal year. The closing off of the old year is not a very high priority in many instances, and this of course would have to change. The urgency with which books were closed and the old year's affairs tidied up would have to come from the top, if you will. That's the only way we're going to get more timely reporting. There needs to be the will for it.

As far as my own office is concerned, over the course of two or three years we would have to revise, on a gradual basis, our whole plan so that we've got the audit virtually finished by the end of the fiscal year, whereas today the auditing of a year really takes place pretty well right up till Christmas. It means bringing everything back a number of months.

I just sort of draw that to the attention of the committee, Mr. Chairman, and commend that it may be of some value to improve time on this.

MR. HARLE: Mr. Chairman, I think timeliness of the information is a key to being able to make use of the accounting information that is available. Obviously, if it gets too far behind from a time frame point of view, of what use is it?

With that in mind, where are the bottlenecks? I see you're referring to deadlines, and there seems to be some problem with the gathering in of accounts payable and making sure that they are properly accounted for. But surely that could be dealt with on an accrual basis if you're doing it earlier than anticipated. It would mean that you could in effect correct information in the past by virtue of the technique you use in the reporting process.

But where are the main bottlenecks? Is it the printing of the reports? Is it the fact that the deadlines are causing the problem? In other words, where is the main area that could be improved to get these reports out a little quicker?

MR. ROGERS: I think a number of the systems are not geared toward recognizing liabilities and receivables when they actually occur but rather, in the case of expenditures, when they're paid, and receivables, when the money is received. I think we get a great deal of exactitude by not closing the records until six months or so after the year end. But for all practical purposes, if estimates were made at March 31 or early in April, if the information to base those estimates on were available, it would quite suffice and, as you say, any comparatively small amounts of variation are picked up in the following year, as they are in the private sector.

I believe it's a matter that Treasury and the people involved in accounting in the various agencies could come to grips with if it became an objective, if you will, to be able to release public accounts and the Auditor General's report in the fall.

MR. CHAIRMAN: Any further questions? If I could, I think that's the closest thing we've had to a request from the Auditor General to the Public Accounts. Could I ask Mr. Moore to take this back and see if they want Public Accounts to make a recommendation or a letter, or whether they want to deal with this in caucus, or whatever, but come back for the next meeting and tell us about the timeliness of financial reporting and what we might want to do, from the Auditor's request. Would that be amenable to the vice-chairman? I will do the same.

MR. R. MOORE: Mr. Chairman, that's a fair request, and I'll do that.

MR. CHAIRMAN: Mr. Moore has agreed, and we'll get a recommendation.

We're running almost to the end. I don't see much point in getting into section 2.5 with about three minutes left on our clock. I just remind people that the next Public Accounts meeting will be on May 2, same time, same place, same station. I have given you the list of people. We'll continue with the Auditor General's report on May 2 and following that, I believe, the next day we'll have the Treasurer.

Would somebody like to move adjournment?

DR. CARTER: I move that we adjourn.

MR. CHAIRMAN: All those in favour?

HON. MEMBERS: Agreed.

[The meeting adjourned at 11:28 a.m.]